



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

200411044

Date: DEC 18 2003

Contact Person:

Identification Number:

Telephone Number:

501.00-00
513.00-00

Employer Identification Number:

Legend

C=
T=
B=
H=
S=
U=
W=
L=
E=
M=

Dear Sir or Madam:

You request rulings under sections 501(c)(3) and 511 through 514 of the Internal Revenue Code.

Description of Entities

C

C is exempt from federal income tax under section 501(c)(3) of the Code. C has a number of members including B, S, U and W; however B, S, U, and W collectively control C. C intends to serve as the catalyst for the development, promotion and marketing of a large tract of land referred to as T. The development will serve as a center of advanced technology research and entrepreneurial activities in the areas of biomedical research, bioengineering, biotechnology, and plant and life sciences research.

B and H

B is exempt from federal income tax under section 501(c)(3) of the Code. B is the fund raising entity of H. H is a large hospital located on one of the perimeters of T and serves as a patient care facility, as a teaching hospital, and as a medical research organization. B's donations and endowment funds are used to (i) fund medical research, (ii) fund and provide training for nurses and other medical personnel, (iii) fund and provide health education in the community, and (iv) benefit those patients who cannot afford health care and its related expenses, and (v) anything else that furthers the mission of H.

S

S is an educational institution recognized as exempt from federal income tax under section 501(c)(3) of the Code. S is located on one of the perimeters of T. S's activities include scientific research and public health service as well as the operation of a medical school.

U and E

U is a state university. It is described in sections 115 and 170 of the Code. While U's main campus is not located near T, U also operates and manages E, which is located on one of the perimeters of T. E is exempt from federal income tax under section 501(c)(3) of the Code. E facilitates technology transfer, university-industry partnerships, and the general growth of advanced technology companies.

W

W is an educational institution recognized as exempt from federal income tax under section 501(c)(3) of the Code. W is involved in undergraduate and graduate scholarship and research, particularly in the fields of medical and plant and life sciences research. W's medical school is located on one of the perimeters of T.

L

L is a limited liability company with four members, B, S, U and W. C serves as the manager of L. L is organized and operated exclusively to advance the charitable, educational, and scientific purposes of its members. L will generate revenue from the sale and lease of properties.

M

M is a section 501(c)(3) organization. M is involved in plant and botanical demonstration and research.

Reasons for the Transaction

Since the 1950s, the city where B, S, E and W (the "City") are located has experienced urban decline. In particular, T, which is located in City, can be characterized as suffering from the

following: abandoned buildings, underutilized space, high unemployment, and few employment opportunities. T is situated in geographic proximity to B, S, E, W and M. Students, researchers, and employees of these institutions expect a safe, productive environment. For many students, researchers, and employees, viable alternative educational and employment opportunities exist in suburban neighborhoods. This situation puts these institutions at a disadvantage.

T's Strategic Plan

In 2002, C was formed to serve as a center of research, technology and entrepreneurial expertise. W, B, S, and U collectively control C's Board of Directors. C's section 501(c)(3) purpose is to fight community deterioration and foster urban revitalization by serving as the strategic planning, guiding and motivating catalyst behind the acquisition, development, promotion, financing and marketing of T. In particular, C will develop a governance model for planning, oversight, financing, and acquisition/control of T's properties. C will provide technical, consulting and administrative services, oversee and promote the development of T, and identify and initiate land acquisition.

In order to create an efficient process to implement land acquisition, L was established. B, S, U, and W each contributed and pledged substantial amounts of money to L. C is the manager (but not a member) of L. L's operating agreement states it was formed to advance the charitable, scientific and educational purposes of W, S, U and B by revitalizing T into a center of research, technology and entrepreneurial expertise. L does not foresee being a direct participant in any development project, since its intended role is simply to purchase and hold property and to facilitate and encourage the development of such property by others. L does not intend to purchase all of the tracts of land within T, but instead to purchase only certain key tracts so as to facilitate the process of rehabilitating the area. L will not receive any services from its members and consequently will pay no fees to its members for services provided by them.

L has commenced negotiations for the purchase of certain strategic parcels of land in T. In some cases, L may incur debt in financing the acquisition of acreage. The ruling request states L will deal with all entities on an arm's-length basis and will ensure any organizations interested in locating on the parcels acquired by L will advance the charitable, educational and scientific purposes of L's members. Specific activities of L might include: (1) assembling multiple parcels of land in the area to accommodate specific types of medical or plant and life sciences research or to facilitate the sale or lease of the property for entrepreneurial and established research organizations; (2) environmental remediation and clearing the land to satisfy local property and zoning standards; (3) managing property; (4) leasing property to the members or to organizations whose purposes or activities advance the technological and research-oriented purposes for the area; (5) selling land to members or to other organizations for development of research and technological facilities; and (6) coordinating with the charitable, educational and scientific organizations regarding specific land plans for the area.

Rulings Requested

The following rulings are requested:

1. L's activities will be considered as furthering the charitable, educational and scientific purposes of C, B, S, U and W so as not to affect their tax-exempt status under section 501(c)(3) of the Code.
2. L's activities will not be considered an unrelated trade or business under section 513(a) of the Code with respect to C, B, S, U and W.
3. The income received by B, S, U and W through L from these activities, including income from the sale of properties, will not be subject to unrelated business income tax under section 511 of the Code and will not result in unrelated business taxable income under section 514.

Law

Section 501(a) of the Code provides for the exemption from federal income tax of organizations described in section 501(c)(3), including organizations organized and operated exclusively for charitable, educational or scientific purposes.

Section 1.501(c)(3)-1(d)(3) of the Income Tax Regulations defines the term educational, as used in section 501(c)(3), to mean the instruction or training of the individual for the purpose of improving or developing his capabilities; or the instruction of the public on subjects useful to the individual and beneficial to the community.

Section 1.501(c)(3)-1(d)(5)(i) of the regulations provides an organization organized and operated for scientific purposes can qualify under section 501(c)(3) of the Code only if it serves a public rather than a private interest.

Section 1.501(c)(3)-1(d)(5)(iii) of the regulations provides scientific research is regarded as carried on in the public interest if such research is directed toward benefiting the public. Examples of scientific research which is directed toward benefiting the public, and, therefore, carried on in the public interest, include (1) scientific research carried on for the purpose of aiding in the scientific education of college or university students; (2) scientific research carried on for the purpose of obtaining scientific information which is published in a treatise, thesis, trade publication, or in any other form that is available to the interested public; (3) scientific research carried on for the purpose of discovering a cure for a disease; or (4) scientific research carried on for the purpose of aiding a community or geographical area by attracting new industry to the community or area or by encouraging the development of, or retention of, an industry in the community or area.

Section 511(a) of the Code imposes a tax on the unrelated business taxable income of organizations described in section 501(c).

Section 512(a)(1) of the Code defines the term "unrelated business taxable income" as the gross income derived by an organization from any unrelated trade or business regularly carried on by it, less certain allowable deductions, computed with the modifications listed in section 512(b).

Section 512(b)(5) of the Code exempts from the definition of unrelated business taxable income all gains and losses from the sale, exchange or other disposition of non-inventory items and items not held for sale in the ordinary course of business.

Section 512(c)(1) of the Code states if a trade or business regularly carried on by a partnership of which an organization is a member is an unrelated trade or business with respect to such organization, such organization in computing its unrelated business taxable income shall, subject to the exceptions, additions, and limitations contained in subsection (b), include its share (whether or not distributed) of the gross income of the partnership from such unrelated trade or business and its share of the partnership deductions directly connected with such gross income.

Section 513(a) of the Code defines unrelated trade or business as any trade or business the conduct of which is not substantially related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the exercise of the organization's exempt purposes or functions.

Section 1.513-1(d)(2) of the regulations provides a trade or business is related to exempt purposes, in the relevant sense, only where the conduct of business activities has a causal relationship to the achievement of exempt purposes; and it is substantially related only if the causal relationship is a substantial one. The regulation states that for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

Section 514 of the Code provides for the taxation under section 512 of income from debt-financed property. Section 514(b)(1)(A)(i) of the Code, however, provides that the definition of debt-financed property does not include any property substantially all the use of which is substantially related to the exercise or performance by such organization of the charitable purposes constituting the basis for its exemption under section 501.

Analysis

L is coordinating community development activities in order to further its members' exempt purpose of advancing research, technological development, and education in health care and plant and life sciences. As an organization which elected to be a partnership for federal tax purposes, L's activities are treated as the activities of its members.

C's, B's, S's, U's, and W's charitable purposes are furthered by L's creation and charitable activities because the formation of L insures the continued growth and accomplishment of C's, B's, S's, U's and W's various charitable, educational, and scientific purposes. L's activities will facilitate the revitalization of T, a deteriorated area, which will renew the area adjoining B, S, E, and W, making T a better place to work, study, and live. This will in turn help B, S, W, E, and U to continue to attract better students, employees, and scholars. This will also allow L's members

to expand their activities into T (i.e., more research and classroom space); encourage more effective use of educational resources and programs (i.e., internships and post-graduate work performed at organizations locating to the area); and will aid efforts in obtaining federal research grants and funds.

Because L's members are B, S, U and W, only exempt members control L. L's operating agreement states it was formed to advance the charitable, scientific and educational purposes of B, S, U and W. Further, C, which is controlled by B, S, W and U, manages L. Therefore, C's, B's, S's, U's and W's participation in L furthers their charitable purpose, and the limited liability company arrangement permits these organizations to act exclusively in furtherance of their exempt purposes. Thus, income derived in the course of L's operations will not be treated as unrelated business taxable income of L under section 512(a)(1) of the Code or of C, B, S, U and W under section 512(c).

Indebtedness incurred in connection with L's activities will not give rise to debt-financed property subject to taxation under section 514 of the Code. The indebtedness does not relate to debt-financed property because it will be incurred in activity that is substantially related to the performance of exempt functions under section 514(b)(1)(A)(i) of the Code.

Conclusion

We rule as follows:

1. L's activities will be considered as furthering the charitable, educational and scientific purposes of C, B, S, U and W so as not to affect their tax-exempt status under section 501(c)(3) of the Code.
2. L's activities will not be considered an unrelated trade or business under section 513(a) of the Code with respect to C, B, S, U and W.
3. The income received by B, S, U and W through L from L's activities, including income from the sale of properties, will not be subject to unrelated business income tax under section 511 of the Code and will not result in unrelated business taxable income under section 514.

These ruling are based on the understanding there will be no material changes in the facts upon which they are based. These rulings are directed only to the organization requesting them. Section 6110(k)(3) of the Code provides they may not be used or cited by others as precedent.

Please keep a copy of this ruling letter in your permanent records.

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If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

(signed) Marvin Friedlander

Marvin Friedlander
Manager, Exempt Organizations
Technical Group 1